ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
July 31, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**01-0609375** **(I.R.S. Employer** **Identification No.)**
622 Third Avenue, 37th Floor **New York, New York** **(Address of principal executive offices)**	**10017** **(Zip Code)**

(212) 885-2500

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of July 29, 2008, was 31,943,166 (net of 4,760,218 treasury shares).

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

(Unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 34.8	$ 53.4
Contracts-in-transit	94.6	116.1
Accounts receivable (net of allowance of $1.0 and $0.7, respectively)	105.5	132.8
Inventories	756.8	770.0
Deferred income taxes	12.0	12.3
Assets held for sale	27.1	34.1
Other current assets	64.8	73.7
Total current assets	1,095.6	1,192.4
PROPERTY AND EQUIPMENT, net	460.8	238.6
GOODWILL	499.7	483.3
OTHER LONG-TERM ASSETS	107.3	102.0
Total assets	$ 2,163.4	$ 2,016.3
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable manufacturer affiliated	$ 188.9	$ 193.7
Floor plan notes payable non-manufacturer affiliated	470.8	480.2
Current maturities of long-term debt	18.9	1.7
Accounts payable and accrued liabilities	184.3	186.2
Liabilities associated with assets held for sale	13.2	9.9
Total current liabilities	876.1	871.7
LONG-TERM DEBT	608.9	473.9
DEFERRED INCOME TAXES	60.5	51.7
OTHER LONG-TERM LIABILITIES	25.5	34.8
COMMITMENTS AND CONTINGENCIES (Note 15)		
SHAREHOLDERS EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized		
Common stock, $.01 par value, 90,000,000 shares authorized 36,703,384 and 36,258,961 shares issued, including shares held in treasury, respectively	0.4	0.4
Additional paid-in capital	442.1	440.3
Retained earnings	226.5	219.4
Treasury stock, at cost; 4,760,218 and 4,677,261 shares held, respectively	(74.5)	(73.3)
Accumulated other comprehensive loss	(2.1)	(2.6)

Total shareholders equity	592.4	584.2
Total liabilities and shareholders equity	$ 2,163.4	$ 2,016.3

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
REVENUES:				
New vehicle	$ 785.6	$ 881.8	$ 1,521.8	$ 1,695.5
Used vehicle	314.3	387.9	638.7	759.9
Parts and service	183.5	174.0	366.1	346.3
Finance and insurance, net	39.0	42.9	77.5	81.1
Total revenues	1,322.4	1,486.6	2,604.1	2,882.8
COST OF SALES:				
New vehicle	733.1	820.2	1,421.0	1,575.0
Used vehicle	287.7	353.8	583.7	690.3
Parts and service	89.0	83.2	178.8	166.9
Total cost of sales	1,109.8	1,257.2	2,183.5	2,432.2
GROSS PROFIT	212.6	229.4	420.6	450.6
OPERATING EXPENSES:				
Selling, general and administrative	168.7	170.8	336.3	341.7
Depreciation and amortization	5.7	5.3	11.2	10.6
Other operating expense (income), net	2.0	(0.2)	1.7	2.5
Income from operations	36.2	53.5	71.4	95.8
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(8.0)	(11.0)	(17.1)	(22.1)
Other interest expense	(9.4)	(9.1)	(18.5)	(21.0)
Interest income	0.3	1.0	1.3	3.0
Loss on extinguishment of long-term debt		(0.8)		(18.5)
Total other expense, net	(17.1)	(19.9)	(34.3)	(58.6)
Income before income taxes	19.1	33.6	37.1	37.2
INCOME TAX EXPENSE	7.5	12.5	14.3	13.8
INCOME FROM CONTINUING OPERATIONS	11.6	21.1	22.8	23.4
DISCONTINUED OPERATIONS, net of tax	(0.7)	(0.5)	(1.4)	(2.4)
NET INCOME	$ 10.9	$ 20.6	$ 21.4	$ 21.0
EARNINGS PER COMMON SHARE:				
Basic				
Continuing operations	$ 0.37	$ 0.65	$ 0.72	$ 0.71
Discontinued operations	(0.03)	(0.02)	(0.04)	(0.07)

Net income	$ 0.34	$ 0.63	$ 0.68	$ 0.64
Diluted				
Continuing operations	$ 0.36	$ 0.63	$ 0.71	$ 0.69
Discontinued operations	(0.02)	(0.01)	(0.05)	(0.07)
Net income	$ 0.34	$ 0.62	$ 0.66	$ 0.62
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	31.7	32.5	31.6	32.9
Performance units	0.2	0.4	0.4	0.4
Restricted stock	0.2		0.1	
Stock options	0.1	0.4	0.1	0.5
Diluted	32.2	33.3	32.2	33.8

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	For the Six Months Ended June 30, 2008	2007
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 21.4	$ 21.0
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	11.2	10.6
Stock-based compensation	1.6	3.5
Deferred income taxes	6.1	2.7
Loss on extinguishment of long-term debt		18.5
Loaner vehicle amortization	4.1	3.4
Excess tax benefits from share-based payment arrangements		(1.5)
Other adjustments	4.5	7.3
Changes in operating assets and liabilities, net of acquisitions and divestitures		
Contracts-in-transit	21.5	8.9
Accounts receivable	17.1	10.9
Proceeds from the sale of accounts receivable	10.7	10.6
Inventories	45.6	(7.0)
Other current assets	(28.8)	(16.1)
Floor plan notes payable manufacturer affiliated	(4.1)	(121.6)
Floor plan notes payable manufacturer affiliated divestitures	(4.6)	
Accounts payable and accrued liabilities	(0.1)	1.1
Other long-term assets and liabilities, net	(0.1)	(0.4)
Net cash provided by (used in) operating activities	106.1	(48.1)
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(31.5)	(28.9)
Construction reimbursements associated with sale-leaseback agreements	1.9	3.6
Acquisitions	(41.8)	(34.1)
Purchases of previously leased real estate	(207.9)	
Proceeds from the sale of assets	20.7	8.3
Other investing activities	0.3	(2.9)
Net cash used in investing activities	(258.3)	(54.0)
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings non-manufacturer affiliated	1,283.2	1,388.5
Floor plan borrowings acquisitions	7.6	10.7
Floor plan repayments non-manufacturer affiliated	(1,301.7)	(1,309.6)
Floor plan repayments non-manufacturer affiliated divestitures	(2.8)	(5.4)
Payments of dividends	(14.4)	(13.2)
Proceeds from borrowings	187.5	265.0
Repayments of borrowings	(24.3)	(266.8)
Payments of debt issuance costs	(0.4)	(7.9)
Proceeds from the sale of warrants		8.9
Purchase of equity call option		(19.3)
Purchases of treasury stock		(36.1)

Purchase of treasury stock associated with net share settlement of employee share-based awards	(1.2)	(0.8)
Proceeds from the sale of assets associated with sale-leaseback agreements		3.2
Excess tax benefits from share-based payment arrangements		1.5
Proceeds from the exercise of stock options	0.1	2.9
Net cash provided by financing activities	133.6	21.6
Net decrease in cash and cash equivalents	(18.6)	(80.5)
CASH AND CASH EQUIVALENTS, beginning of period	53.4	129.2
CASH AND CASH EQUIVALENTS, end of period	$ 34.8	$ 48.7

See Note 14 for supplemental cash flow information

See accompanying Notes to Condensed Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF BUSINESS

We are one of the largest automotive retailers in the United States, operating 122 franchises (90 dealership locations) in 22 metropolitan markets within 11 states as of June 30, 2008. We offer an extensive range of automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts and collision repair services; and financing, insurance and service contracts. We offer 36 domestic and foreign brands of new vehicles, including 6 heavy truck brands. We also operate 25 collision repair centers that serve customers in our local markets.

Our retail network is currently organized into primarily four regions and includes nine locally branded dealership groups: (i) Florida (comprising our Coggin dealerships, operating primarily in Jacksonville, Fort Pierce and Orlando; and our Courtesy dealerships operating in Tampa), (ii) West (comprising our McDavid dealerships operating throughout Texas, our North Point dealerships operating in Little Rock, Arkansas and our California dealerships operating in Los Angeles, Sacramento and Fresno), (iii) Mid-Atlantic (comprising our Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia) and (iv) South (comprising our Nalley dealerships operating in Atlanta, Georgia). Our Plaza dealerships operating in St. Louis, Missouri, and our Gray Daniels dealerships operating in Jackson, Mississippi remain standalone operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), and reflect the condensed consolidated accounts of Asbury Automotive Group, Inc. and our wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Accordingly, actual results could differ from these estimates. Estimates and assumptions are reviewed quarterly and the effects of revisions are reflected in the condensed consolidated financial statements in the period they are determined to be necessary. Refer to Application of Critical Accounting Estimates in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations for more information on our critical estimates.

In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of the unaudited interim condensed consolidated financial statements as of June 30, 2008, and for the three and six months ended June 30, 2008 and 2007 have been included. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the full year. Our interim unaudited condensed consolidated financial statements should be read together with our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2007.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, certain amounts reflected in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007, have been classified as Assets Held for Sale and Liabilities Associated with Assets Held for Sale. In addition, the accompanying Condensed Consolidated Statements of Income for the three and six months ended June 30, 2007, have been reclassified to reflect the status of our discontinued operations as of June 30, 2008.

Revenue Recognition

Revenue from the sale of new and used vehicles is recognized upon delivery, passage of title, signing of the sales contract and approval of financing. Revenue from the sale of parts and service is recognized upon delivery of parts to the customer or at the time vehicle service or repair work is completed. Manufacturer incentives and rebates, including manufacturer holdbacks, floor plan interest assistance and certain advertising assistance, are recognized as a component of new vehicle cost of sales when earned, generally at the time the related vehicles are sold.

We receive commissions from third party lending and insurance institutions for arranging customer financing and for the sale of vehicle service contracts, credit life insurance and disability insurance to customers (collectively F&I). We may be charged back (chargebacks) for F&I commissions in the event a contract is prepaid, in default or terminated prior to maturity. F&I commissions are recorded at the time the vehicles are sold and a reserve for future chargebacks is established based on historical operating results and the termination provisions of the applicable contracts. F&I commissions, net of estimated chargebacks, are included in Finance and Insurance, net in the accompanying Condensed Consolidated Statements of Income.

In addition to the commissions we receive on the sale of third-party warranty and insurance products, we also have contingent revenue arrangements with third-party administrators whereby we will potentially receive retrospective payments in the future. These payments, if any, represent the amount of funds available to pay future claims in excess of what is actually used to pay claims on the related policies. These payments are determined by the third-party administrator when it believes that the pool of contracts have matured enough to determine that excess funds exist. The amount of retrospective payments is contingent on the claim performance (i.e., the amount of the funds used to pay customer claims). If the claim performance is such that no excess funds are predicted to exist at the maturity of the related contract, then no retrospective commissions are paid. As a result, we do not record retrospective commissions until such a time that the payment has been confirmed by the third-party administrator to the contracts, because that is the first time that the amount is fixed and determinable.

Earnings Per Share

Basic earnings per share is computed by dividing net income by our weighted-average common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted-average common shares and common share equivalents outstanding during the period. There were no adjustments to the numerator necessary to compute diluted earnings per share. We have issued warrants that upon exercise, may result in the issuance of between 3,382,978 and 6,765,957 shares of our common stock. In addition, our 3% Notes are convertible into our common stock at a current exercise price of $33.85. The shares issuable upon exercise of warrants and 3% Notes could potentially dilute basic earnings per share in the future; however, these shares were not included in the computation of diluted earnings per share, because they are currently anti-dilutive.

Goodwill and Other Intangible Assets

Goodwill represents the excess cost of the businesses acquired over the fair market value of the identifiable net assets. We have determined that, based on how we integrate acquisitions into our business, how the components of our business share resources and interact with one another, and the fact that all components are economically similar, we qualify as a single reporting unit for purposes of testing goodwill for impairment. Our dealership general managers are responsible for customer facing activities, including inventory management, advertising and personnel decisions, and have the flexibility to respond to local market conditions. The corporate management team, with input from the regional management teams, is responsible for infrastructure and general strategy decisions.

The fair market value of our manufacturer franchise rights is determined at the acquisition date through discounting the projected cash flows specific to each franchise. We have determined that manufacturer franchise rights have an indefinite life as there are no economic or other factors that limit their useful lives and they are expected to generate cash flows indefinitely due to the historically long lives of the manufacturers brand names. Furthermore, to the extent that any agreements evidencing our manufacturer franchise rights expire, we expect to renew those agreements in the ordinary course of business. Due to the fact that manufacturer franchise rights are specific to the location in which we acquire a dealership, we have determined that the dealership is the reporting unit for purposes of testing franchise rights for impairment.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, we do not amortize goodwill and other intangible assets that are deemed to have indefinite lives. We review goodwill and indefinite lived manufacturer franchise rights for impairment annually on October 1st of each year, or more often if events or circumstances indicate that impairment may have occurred. We are subject to financial statement risk to the extent that manufacturer franchise rights become impaired due to decreases in fair market value of our individual franchises or to the extent that goodwill becomes impaired due to decreases in the fair market value of our automotive retail business.

All other intangible assets are deemed to have definite lives and are amortized on a straight-line basis over the life of the asset ranging from 3 to 15 years and are tested for impairment when circumstances indicate that the carrying value of the asset might be impaired.

Derivative Instruments and Hedging Activities

We utilize derivative financial instruments to manage our capital structure and interest rate risk. The types of risks hedged are those relating to the variability of cash flows and changes in the fair value of our financial instruments caused by movements in interest rates. We document our risk management strategy and assess hedge effectiveness at the inception and during the term of each hedge. Derivatives are reported at fair value on the accompanying Condensed Consolidated Balance Sheets.

The changes in fair value of the effective portion of cash flow hedges are reported as a component of accumulated other comprehensive loss. Amounts in accumulated other comprehensive loss are reclassified to interest expense to the extent the hedge becomes ineffective. The change in fair value of fair value hedges are recorded as a component of interest expense. Changes in the fair value of the associated hedged exposures are also recorded as a component of interest expense.

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Measurements of hedge effectiveness are based on comparisons between the gains or losses of the actual interest rate swaps and the gains or losses of hypothetical interest rate swaps, which are designed to reflect the critical terms of the defined hedged exposures. Ineffective portions of these interest rate swaps are reported as a component of interest expense in the accompanying Condensed Consolidated Statements of Income. We recognized no ineffectiveness during the six months ended June 30, 2008 and minor ineffectiveness during the six months ended June 30, 2007.

Statements of Cash Flows

Borrowings and repayments of floor plan notes payable to a party unaffiliated with the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the manufacturer of a particular new vehicle is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows.

Loaner vehicle activity accounts for a significant portion of Other Current Assets on the accompanying Condensed Consolidated Statements of Cash Flows. We acquire loaner vehicles either with available cash or through borrowings from manufacturer affiliated lenders. While loaner vehicles are initially used by our service department for use in our business, these vehicles are used in such capacity for a short period of time (typically six to twelve months) before we sell them. Therefore we classify the acquisition of loaner vehicles and the related borrowings and repayments as operating activities in the accompanying Condensed Consolidated Statements of Cash Flows. The cash outflow to acquire loaner vehicles is presented in Other Current Assets in the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings and repayments of loaner vehicle notes payable are presented in Accounts Payable and Accrued Liabilities in the accompanying Condensed Consolidated Statements of Cash Flows. When loaner vehicles are taken out of loaner status they are transferred to used vehicle inventory, which is reflected as a non-cash transfer in the accompanying Condensed Consolidated Statements of Cash Flows. The cash inflow from the sale of loaner vehicles is reflected in Inventory on the accompanying Condensed Consolidated Statements of Cash Flows.

Construction reimbursements from third parties in connection with sale-leaseback agreements for the construction of new dealership facilities or leasehold improvements on our dealership facilities are included in investing activities in the accompanying Condensed Consolidated Statements of Cash Flows.

Proceeds from the sale of dealership facilities and the related real estate previously owned and subsequently leased back in connection with sale-leaseback agreements are reflected as financing activities in the accompanying Condensed Consolidated Statements of Cash Flows.

Excess tax benefits related to share-based awards that are partially vested upon or granted after the adoption of SFAS No. 123R Share-Based Payment are included as cash inflows from financing activities on the accompanying Condensed Consolidated Statements of Cash Flows.

Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under the FSP, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The adoption of FSP No. EITF 03-6-1 will not have a material impact on our consolidated financial statements.

In March 2008, the Financial Accounting Standards Board (FASB) concluded its re-deliberations on FSP APB 14-a Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-a) deciding to retain its original proposal related to this matter. FSP APB 14-A applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). FSP APB 14-a will require that the issuer of a convertible debt instrument within its scope separately account for the liability and equity components in a manner that will reflect the issuer s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The excess of the principal amount of the liability component over its initial fair value shall be amortized to interest cost using the interest method. The provisions of FSP APB 14-a apply to our 3% Senior Subordinated Convertible Notes. FSP APB 14-a is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods thereafter. Early adoption is not permitted. FSP APB 14-a shall be applied retrospectively to all periods presented. We estimate that the adoption of FSP APB 14-a will increase our interest expense by approximately $4.0 million in 2009 and decrease retained earnings on January 1, 2009 by approximately $7.0 million.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133, and how derivative instruments and related hedged items affect an entity s operating results, financial position and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. Early adoption is permitted. We are currently reviewing the provisions of SFAS 161 and have not yet adopted the statement. However, as the provisions of SFAS 161 are only related to disclosure of derivative and hedging activities, therefore the adoption of SFAS 161 will not have a material impact on our consolidated financial statements.

We adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measures (SFAS 157) as of January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. In February 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions, and FSP FAS 157-2, Effective Date of FASB Statement No. 157. FSP FAS 157-1 removes leasing from the scope of SFAS No. 157, Fair Value Measurements. FSP FAS 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Required disclosures are included in Note 11 to our Condensed Consolidated Financial Statements.

3. RECLASSIFICATION OF PRIOR YEAR FINANCIAL STATEMENTS

We have previously presented Other Income, net after Income from Operations on our Condensed Consolidated Statements of Income. Included in Other Income, net were (i) gains and losses from the sale of dealerships that were not classified as discontinued operations, (ii) rental income from owned real estate and (iii) gains and losses from the sale of property and equipment. After a review of paragraph 45 of SFAS 144, we determined that these items should be presented as a component of Income from Operations on our Condensed Consolidated Statements of Income; therefore, we are adjusting Income from Operations for the three and six months ended June 30, 2007, to include Other Income, net in Income from Operations.

In addition, we have historically presented non-core operating expenses as a component of Selling, General and Administrative on our Condensed Consolidated Statements of Income. In connection with the creation of Other Operating Expense (Income), net we have decided to reclassify non-core operating expenses from Selling, General and Administrative to Other Operating Expense (Income), net. In addition, the adjustments of amounts previously reported were impacted by franchises placed into discontinued operations after June 30, 2007.

These reclassifications do not have any impact on income from continuing operations, earnings per share or retained earnings. In addition, we have reclassified our Condensed Consolidated Statements of Income for the three and six months ended June 30, 2007 to reflect the current status of our discontinued operations. Below are reconciliations between Income from Operations as previously reported and Income from Operations.

(In millions)	**For the Three Months Ended June 30, 2007**	**For the Six Months Ended June 30, 2007**
Income from operations, previously reported	$ 53.4	$ 95.8
Other income, net	0.4	0.7
Income from operations of franchises placed into discontinued operations after June 30, 2007	(0.3)	(0.7)
Income from operations	$ 53.5	$ 95.8

(In millions)	**For the Three Months Ended June 30, 2007**	**For the Six Months Ended June 30, 2007**
Selling general and administrative, previously reported	$ 173.6	350.0
Non-core operating expenses, net	(0.2)	(3.2)
Selling, general and administrative of franchises placed into discontinued operations in 2007	(2.6)	(5.1)

Selling, general and administrative	$ 170.8	$ 341.7

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(In millions)	For the Three Months Ended June 30, 2007		For the Six Months Ended June 30, 2007	
Other operating (income) expense net, previously reported	$		$	
Other income, net		(0.4)		(0.7)
Non-core operating expenses, net		0.2		3.2
Other operating (income) expense, net	$	(0.2)	$	2.5

4. ACQUISITIONS

During the six months ended June 30, 2008, we acquired one franchise (one dealership location), for an aggregate purchase price of $41.8 million. We financed this acquisition through the use of (i) $33.8 million of cash, (ii) $7.6 million of floor plan borrowings from our Committed Credit Facility for the purchase of new vehicle inventory, and (iii) $0.4 million of loaner vehicle financing. During the six months ended June 30, 2007, we acquired five franchises (three dealership locations) including two heavy truck franchises for an aggregate purchase price of $34.1 million. We financed these acquisitions through the use of $23.4 million of cash and floor plan borrowings of $10.7 million from our Committed Credit Facility for the purchase of new vehicle inventory.

The preliminary allocation of purchase price for acquisitions is as follows:

	For the Six Months Ended June 30,	
	2008	2007
	(In millions)	
Inventory	$ 9.7	$ 11.5
Property and Equipment	7.3	4.9
Goodwill	17.0	9.4
Franchise rights	7.5	8.3
Other	0.3	
Total purchase price	$ 41.8	$ 34.1

5. INVENTORIES

Inventories consist of the following:

	As of	
	June 30, 2008	December 31, 2007
	(In millions)	
New vehicles	$ 614.4	$ 622.7
Used vehicles	93.4	101.1
Parts and accessories	49.0	46.2
Total inventories	$ 756.8	$ 770.0

The lower of cost or market reserves reduced total inventory cost by $5.0 million and $4.5 million as of June 30, 2008 and December 31, 2007, respectively. In addition to the inventories shown above, we have $2.2 million and $12.8 million of inventory as of June 30, 2008 and December 31, 2007, respectively, classified as Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets as they are associated with franchises held for sale.

6. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities classified as held for sale include (i) assets and liabilities associated with discontinued operations held for sale at each balance sheet date, and (ii) costs of completed construction projects associated with pending sale-leaseback transactions.

Assets and liabilities held for sale include assets and liabilities associated with the pending disposition of one franchise (one dealership location) as of June 30, 2008, and five franchises (four dealership locations) as of December 31, 2007, of which four franchises were classified as discontinued operations. During the six months ended June 30, 2008, we sold five franchises (four dealership locations) that had been held for sale as of December 31, 2007. Assets associated with pending dispositions totaled $27.1 million and $24.9 million as of June 30, 2008 and December 31, 2007, respectively. Liabilities associated with pending dispositions

totaled $13.2 million and $9.9 million as of June 30, 2008 and December 31, 2007, respectively. Assets held for sale and liabilities held for sale includes real estate and the related mortgages of former dealership locations not currently used in our operations totaling $18.1 million and $11.5 million, respectively, as of June 30, 2008.

Assets held for sale associated with pending sale-leaseback transactions as of December 31, 2007 include $9.2 million, related to completed construction projects. During the six months ended June 30, 2008, we received final reimbursements of $1.9 million associated with completed construction projects.

A summary of assets held for sale and liabilities associated with assets held for sale are as follows:

	As of	
	June 30, 2008	December 31, 2007
	(In millions)	
Assets:		
Inventories	$ 2.2	$ 12.8
Completed construction projects		9.2
Property and equipment, net	24.3	7.9
Manufacturer franchise rights		1.0
Goodwill	0.3	3.2
Other	0.3	
Total assets	27.1	34.1
Liabilities:		
Floor plan notes payable	1.7	9.9
Mortgage notes payable	11.5	
Total liabilities	13.2	9.9
Net assets held for sale	$ 13.9	$ 24.2

Included in Other Current Assets on the accompanying Condensed Consolidated Balance Sheets are costs associated with ongoing construction projects, which we expect to complete within one year from each balance sheet date. In connection with these construction projects, we have entered into sale-leaseback agreements whereby an unaffiliated third party purchased the land and is either reimbursing us for the cost of construction of dealership facilities being constructed on the land or has agreed to purchase the assets from us upon completion of the project. We capitalize the cost of the construction during the construction period, and upon completion of the construction and receipt of the final reimbursement, we remove the cost of construction from our Condensed Consolidated Balance Sheets and commence operating leases. As of June 30, 2008 and December 31, 2007, the book value of assets associated with ongoing construction projects to be completed within one year from each balance sheet date, totaled $1.1 million and $14.9 million, respectively.

7. PROPERTY AND EQUIPMENT, NET

In the second quarter of 2008, we acquired thirty-three properties previously leased by our dealerships for an aggregate purchase price of $207.9 million, $202.2 million of which was pursuant to the exercise of a right of first refusal. We financed the purchase of these properties with $151.1 million of mortgage borrowings and $56.8 million of available cash. We have placed three of these properties, with a book value of $12.9 million, in Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets. In addition, we have placed $11.5 million of mortgages associated with these three properties in Liabilities Associated with Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets. We do not use these properties in our dealership operations and they are pending disposition.

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8. GOODWILL AND MANUFACTURER FRANCHISE RIGHTS

The changes in the carrying amount of goodwill for the six months ended June 30, 2008 are as follows (in millions):

Balance as of December 31, 2007	$ 483.3
Goodwill included in Assets Held for Sale as of December 31, 2007	3.2
Acquisitions	17.0
Divestitures	(3.5)
Goodwill Held for Sale as of June 30, 2008	(0.3)
Balance as of June 30, 2008	$ 499.7

The allocation of purchase price to assets acquired in 2008 is based on preliminary estimates of fair value and may be revised as additional information concerning valuation of such assets and liabilities becomes available, including the payment of additional consideration resulting from earnings participation arrangements.

The change in the carrying amount of manufacturing franchise rights, which are included in Other Long-Term Assets on the accompanying Condensed Consolidated Balance Sheets, are as follows (in millions):

Balance as of December 31, 2007	$ 53.2
Manufacturer Franchise Rights included in Assets Held for Sale as of December 31, 2007	1.0
Acquisitions	7.5
Divestitures	(1.0)
Balance as of June 30, 2008	$ 60.7

9. LONG-TERM DEBT

Long-term debt consists of the following:

	As of	
	June 30, 2008	**December 31, 2007**
	(In millions)	
8% Senior Subordinated Notes due 2014 ($179.4 million face value, net of hedging activity of $6.1 million and $6.6 million, respectively)	$ 173.3	$ 172.8
7.625% Senior Subordinated Notes due 2017	150.0	150.0
3% Senior Subordinated Convertible Notes Due 2012	115.0	115.0
Mortgage notes payable	176.2	25.8
Revolver	10.0	
Bridge loans		8.3
Other	3.3	3.7
	627.8	475.6
Less: current portion	(18.9)	(1.7)
Long-term debt	$ 608.9	$ 473.9

Bridge Loans

During the first quarter of 2008, we repaid two bridge loans totaling $8.3 million which were used to finance the purchase of real estate at one of our dealership locations with the proceeds from the issuance of $8.3 million of mortgage notes payable.

Mortgage Notes Payable

During the second quarter of 2008, we borrowed $151.1 million in the form of thirty-two separate mortgage notes payable to purchase $202.2 million of previously leased real estate. Each mortgage note payable is secured by the related real estate and matures in June 2013. The mortgage notes payable bear interest at a variable rate calculated as the London Interbank Offered Rate (LIBOR) plus 245 basis points. We are required to make monthly principal payments based on a straight-line twenty year amortization schedule. We have placed $11.5 million of mortgages associated with three of the properties acquired in Liabilities Associated with Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets. We do not use these properties in our dealership operations and they are pending disposition.

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In addition, during the second quarter of 2008, we borrowed $3.1 million in connection with the construction of a service facility at one of our dealerships.

10. FINANCIAL INSTRUMENTS

We have an interest rate swap with a current notional principal amount of $150.0 million. The swap was designed to provide a hedge against changes in interest rates of our variable rate floor plan notes payable through maturity in November 2008. This interest rate swap qualifies for cash flow hedge accounting treatment and will contain minor ineffectiveness. As of June 30, 2008 and December 31, 2007, the swap agreement had a fair value of $1.4 million and $1.5 million, respectively and is included in Accrued Liabilities on the accompanying Condensed Consolidated Balance Sheets.

We have an interest rate swap with a current notional principal amount of $13.2 million. The swap was designed to provide a hedge against changes in interest rates of our variable rate mortgage notes payable through maturity in June 2011. This interest rate swap qualifies for cash flow hedge accounting treatment and will contain minor ineffectiveness. As of June 30, 2008 and December 31, 2007, the swap agreement had a fair value of $0.2 million and is included in Other Long-Term Liabilities on the accompanying Condensed Consolidated Balance Sheets.

In the second quarter of 2008, we entered into an interest rate swap with a current notional principal amount of $125.0 million. The swap was designed to provide a hedge against changes in interest rates of our variable rate floor plan payable through maturity in June 2013. This interest rate swap qualifies for cash flow hedge accounting treatment and will contain minor ineffectiveness. As of June 30, 2008, the swap agreement had a fair value of $0.5 million and is included in Other Long-Term Assets on the accompanying Condensed Consolidated Balance Sheets.

We terminated three of our interest rate swap agreements in March 2006, resulting in a cash payment of $13.7 million, which equaled the fair market value of the swap agreements. Included in Accumulated Other Comprehensive Loss on our Condensed Consolidated Balance Sheet as of June 30, 2008, was $2.1 million ($1.3 million, net of tax) of unrecognized amortization related to our two terminated cash flow swaps, which are being amortized through March 2014 as a component of Floor Plan Interest Expense on the accompanying Condensed Consolidated Statements of Income. Amortization of these terminated cash flow swaps totaled $0.3 million for the six months ended June 30, 2008 and will total $0.7 million for the year ending December 31, 2008. In addition, included as a reduction to our 8% Notes as of June 30, 2008, was $6.1 million of unrecognized amortization related to our terminated fair value swap, which is being amortized through March 2014 as a component of Other Interest Expense on the accompanying Condensed Consolidated Statements of Income. Amortization of this terminated fair value swap totaled $0.5 million for the six months ended June 30, 2008, and will total $1.1 million for the year ending December 31, 2008.

11. FAIR VALUE

In determining fair value, we use various valuation approaches including market, income and/or cost approaches. SFAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Assets utilizing Level 1 inputs include exchange-traded equity securities that are actively traded.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include fair value and cash flow swap instruments.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Asset and liability measurements utilizing Level 3 inputs include those used in estimating fair value of non-financial assets and non-financial liabilities in purchase acquisitions, those used in assessing impairment under Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* and those used in the reporting unit valuation in the first step of the annual goodwill impairment evaluation.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required to determine fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. We use inputs that are current as of the measurement date, including during periods when the market may be abnormally high or abnormally low.

Valuation Techniques

The fair value of cash flow swaps is calculated as the present value of expected future cash flows, determined on the basis of forward interest rates and present value factors that are derived from level 1 inputs. As such, the carrying amounts for these swaps are designated to be level 2 fair values.

Our rabbi trust investments were established to hold assets related to our deferred compensation plan existing for certain members of our management and directors. Our rabbi trust investments are included in Other Long-Term Assets in the accompanying Condensed Consolidated Balance Sheets. The rabbi trust investments shown in the fair value table are comprised of mutual funds. Since the shares of the mutual funds are not exchanged in an active market, they are categorized in Level 2 in the fair value hierarchy.

Assets or liabilities recorded at fair value in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2008, are as follows:

		Fair Value at Reporting Date Using:		
(In millions)	**Total Assets (Liabilities)**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments (1)	$ 9.9	$	$ 9.9	$
Cash Flow Swaps (2)	$ (1.1)	$	$ (1.1)	$
Total	$ 8.8	$	$ 8.8	$

(1) - Included within Other Long-Term Assets in the accompanying Condensed Consolidated Balance Sheet

(2) - Included net of taxes of $0.7 million in Accumulated Other Comprehensive Loss in the accompanying Condensed Consolidated Balance Sheet

Nonfinancial Assets and Liabilities

In November 2007, the FASB placed a one-year deferral for the implementation of SFAS 157 for nonfinancial assets and liabilities. Accordingly, we will adopt the methods of fair value described in SFAS 157 for nonfinancial assets and liabilities on January 1, 2009. We have not yet determined the impact, if any, on our consolidated financial statements for these nonfinancial assets and liabilities, which include, but are not limited to, goodwill, franchise rights and assets held for sale.

12. COMPREHENSIVE INCOME

The following table provides a reconciliation of net income to comprehensive income:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In millions)	**2008**	**2007**	**2008**	**2007**
Net income	$ 10.9	$ 20.6	$ 21.4	$ 21.0
Other comprehensive income:				
Change in fair value of cash flow swaps	2.1	0.8	0.6	0.5

Amortization of expired cash flow swaps	0.1	0.2	0.3	0.4
Income tax expense associated with cash flow swaps	(0.8)	(0.4)	(0.4)	(0.3)
Comprehensive income	$ 12.3	$ 21.2	$ 21.9	$ 21.6

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13. DISCONTINUED OPERATIONS

During the six months ended June 30, 2008, we sold five franchises (four dealership locations), four of which were classified as discontinued operations. There was one franchise (one dealership location) pending disposition as of June 30, 2008, which has been classified as Assets Held for Sale. The accompanying Condensed Consolidated Statements of Income for the three and six months ended June 30, 2007, have been reclassified to reflect the status of our discontinued operations as of June 30, 2008.

The following table provides further information regarding our discontinued operations as of June 30, 2008, and includes the results of businesses sold prior to June 30, 2008:

	For the Three Months Ended June 30, 2008			For the Three Months Ended June 30, 2007		
(Dollars in millions)	**Sold**	**Pending Disposition(b)**	**Total**	**Sold (a)**	**Pending Disposition (b)**	**Total**
Franchises:						
Mid-line Domestic				2		2
Mid-line Import	1		1			
Value				1		1
Luxury		1	1		1	1
Total	1	1	2	3	1	4
Ancillary Businesses						
Revenues	$ 2.7	$ 3.0	$ 5.7	$ 15.1	$ 5.3	$ 20.4
Cost of sales	2.4	2.3	4.7	13.2	4.3	17.5
Gross profit	0.3	0.7	1.0	1.9	1.0	2.9
Operating expenses	0.9	0.7	1.6	2.4	0.9	3.3
Income (loss from operations	(0.6)		(0.6)	(0.5)	0.1	(0.4)
Other expense, net	(0.1)	(0.2)	(0.3)	(0.1)		(0.1)
Loss on disposition of discontinued operations, net	(0.3)		(0.3)	(0.3)		(0.3)
Income (loss) before income taxes	(1.0)	(0.2)	(1.2)	(0.9)	0.1	(0.8)
Income tax benefit (expense)	0.4	0.1	0.5	0.3		0.3
Discontinued operations, net of tax	$ (0.6)	$ (0.1)	$ (0.7)	$ (0.6)	$ 0.1	$ (0.5)

(a) Franchises were sold between April 1, 2007 and June 30, 2008
(b) Franchises pending disposition as of June 30, 2008

	For the Six Months Ended June 30, 2008			For the Six Months Ended June 30, 2007		
(Dollars in millions)	Sold	Pending Disposition (b)	Total	Sold (a)	Pending Disposition (b)	Total
Franchises:						
Mid-line Domestic	2		2	2		2
Mid-line Import	1		1			
Value	1		1	3		3
Luxury		1	1		1	1
Total	4	1	5	5	1	6
Ancillary Businesses				1		1
Revenues	$ 11.6	$ 7.1	$ 18.7	$ 31.9	$ 9.5	$ 41.4
Cost of sales	10.9	5.6	16.5	28.0	7.7	35.7
Gross profit	0.7	1.5	2.2	3.9	1.8	5.7
Operating expenses	2.2	1.5	3.7	5.3	1.7	7.0
Income (loss) from operations	(1.5)		(1.5)	(1.4)	0.1	(1.3)
Other expense, net	(0.2)	(0.2)	(0.4)	(0.4)		(0.4)
Loss on disposition of discontinued operations, net	(0.3)		(0.3)	(2.0)		(2.0)
Loss before income taxes	(2.0)	(0.2)	(2.2)	(3.8)	0.1	(3.7)
Income tax benefit	0.7	0.1	0.8	1.3		1.3
Discontinued operations, net of tax	$ (1.3)	$ (0.1)	$ (1.4)	$ (2.5)	$ 0.1	$ (2.4)

(a) Franchises were sold between January 1, 2007 and June 30, 2008
(b) Franchises pending disposition as of June 30, 2008

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended June 30, 2008 and 2007, we made interest payments, net of amounts capitalized, totaling $35.2 million and $39.3 million, respectively.

During the six months ended June 30, 2008 and 2007, we made income tax payments totaling $10.0 million and $5.2 million, respectively.

The following items are included in Other Adjustments to reconcile net income to cash flow from operating activities:

	For the Six Months Ended June 30,	
(In millions)	2008	2007
Amortization of deferred financing fees	$ 1.3	$ 1.3
Loss on investments	0.8	
Loss on sale of franchises	0.3	2.0
Loss on sale of assets	0.6	0.1
Swap amortization	0.8	0.9
Deferred compensation expense	0.3	2.1
Deferred gain amortization	(0.4)	(0.4)
Other individually immaterial items	0.8	1.3

Total	$ 4.5	$ 7.3

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15. COMMITMENTS AND CONTINGENCIES

A significant portion of our vehicle business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States of America. As a result, our operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign countries. The United States of America or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices.

Manufacturers may direct us to implement costly capital improvements to dealerships as a condition upon entering into franchise agreements with them. Manufacturers also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause us to divert our financial resources to capital projects from uses that management believes may be of higher long-term value, such as acquisitions.

Substantially all of our facilities are subject to federal, state and local provisions regarding the discharge of materials into the environment. Compliance with these provisions has not had, nor do we expect such compliance to have, any material effect upon our capital expenditures, net earnings, financial condition, liquidity or competitive position. We believe that our current practices and procedures for the control and disposition of such materials comply with applicable federal, state and local requirements.

From time to time, we and our dealerships are involved in litigation, including class actions, involving the manufacture and sale of motor vehicles, including but not limited to the charging of administrative, service, processing or document preparation fees, employment-related claims, the operation of dealerships, contractual disputes, actions brought by governmental authorities and other matters arising in the ordinary course of our business. With respect to certain of these claims, the previous owners of dealerships we have acquired have indemnified us. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our financial condition, liquidity, results of operations or financial statement disclosures. However, the outcome of these matters cannot be predicted with certainty, and unfavorable resolution of one or more of these matters could have a material adverse effect on our financial condition, liquidity, results of operations or financial statement disclosures.

Our dealerships hold dealer agreements with a number of vehicle manufacturers. In accordance with the individual dealer agreements, each dealership is subject to certain rights and restrictions typical of the industry. The ability of the manufacturers to influence the operations of the dealerships or the loss of a dealer agreement could have a negative impact on our operating results.

In connection with the purchase of one franchise, additional consideration may be paid to the seller if the franchise achieves specified net income levels in future periods. The additional consideration is distributable annually beginning January 1, 2009 through January 1, 2015, and we estimate the additional consideration to total approximately $2.5 million.

16. SHARE-BASED COMPENSATION

A summary of options outstanding and exercisable under our share-based compensation plans as of June 30, 2008, and changes during the six months ended is presented below:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value*
Options outstanding December 31, 2007	1,100,804	$ 14.37		
Granted		$		
Exercised	(8,834)	$ 14.31		
Expired / Forfeited	(4,168)	$ 14.51		
Options outstanding June 30, 2008	1,087,802	$ 14.37	5.1	$
Options exercisable June 30, 2008	1,087,802	$ 14.37	5.1	$

* Based on the closing price of our common stock on June 30, 2008 which was $12.85 per share.

Net cash received from option exercises for the six months ended June 30, 2008, was $0.1 million. The actual intrinsic value of options exercised during the six months ended June 30, 2008, was not material. The actual tax benefit realized for the tax deductions from option exercises was not material for the six months ended June 30, 2008.

A summary of performance share units and restricted stock as of June 30, 2008, and changes during the six months then ended is presented below:

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	Shares	Weighted Average Grant Date Fair Value	
Performance Share Units December 31, 2007*	575,768	$	21.92
Granted	169,251	$	14.29
Performance estimate	(189,550)	$	23.47
Vested	(211,094)	$	16.86
Forfeited	(25,650)	$	17.59
Performance Share Units June 30, 2008**	318,725	$	20.75

* Maximum of 1,037,250 issuable upon attaining certain performance metrics.
** Maximum of 919,577 issuable upon attaining certain performance metrics.

The actual intrinsic value of vested performance units and restricted stock during the six months ended June 30, 2008, totaled $3.5 million. The actual tax benefit realized for the tax deductions from vested performance units and restricted stock was $1.3 million for the six months ended June 30, 2008. We repurchased 82,957 shares for $1.2 million from employees in connection with the net share settlement of performance units vested during the six months ended June 30, 2008.

Each performance share unit provides an opportunity for the employee to receive a number of shares of our common stock based on our performance during a three-year period as measured against objective performance goals as determined by the compensation committee of our board of directors. The actual number of shares earned may range from 0% to 180% of the target number of shares depending upon achievement of such performance goals. During the first half of 2008 we have reduced the performance estimate by 189,550 shares to the actual amount of performance units we expect to vest, which reflects our current performance against our performance goals.

A summary of restricted stock issued as of June 30, 2008, and changes during the six months then ended, is presented below:

	Shares	Weighted Average Grant Date Fair Value	
Restricted Stock December 31, 2007	72,525	$	26.83
Granted	224,491	$	14.39
Vested	(41,551)	$	22.94
Forfeited		$	
Restricted Stock June 30, 2008	255,465	$	16.53

17. SUBSEQUENT EVENTS

In July 2008, our board of directors declared a $0.225 per share cash dividend. This was the ninth consecutive quarter that a dividend was paid.

In July 2008, we sold one franchise (one dealership location) for $1.7 million and recognized a loss on the sale of $0.1 million. This franchise was classified as a discontinued operation as of June 30, 2008.

In July 2008, we initiated a phased restructuring plan, the first step of which is the restructuring of our corporate overhead, shutting down our offices in New York, NY and Stamford, CT, and moving our headquarters to Atlanta, GA. This move will bring us closer to our dealership operations and will result in an estimated 20% reduction in our corporate personnel expense.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

We are one of the largest automotive retailers in the United States operating 122 franchises (90 dealership locations) in 22 metropolitan markets within 11 states as of June 30, 2008. We offer an extensive range of automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts and collision repair services; and financing, insurance and service contracts. We offer 36 domestic and foreign brands of new vehicles, including 6 heavy truck brands. We also operate 25 collision repair centers that serve customers in our local markets.

Our retail network is currently organized into primarily four regions and includes nine locally branded dealership groups: (i) Florida (comprising our Coggin dealerships, operating primarily in Jacksonville, Fort Pierce and Orlando; and our Courtesy dealerships operating in Tampa), (ii) West (comprising our McDavid dealerships operating throughout Texas, our North Point dealerships operating in Little Rock, Arkansas, and our California dealerships operating in Los Angeles, Sacramento and Fresno), (iii) Mid-Atlantic (comprising our Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia) and (iv) South (comprising our Nalley dealerships operating in Atlanta, Georgia). Our Plaza dealerships operating in St. Louis, Missouri, and our Gray Daniels dealerships operating in Jackson, Mississippi, remain standalone operations. We expect to continue acquiring single point dealerships or small dealership groups in our existing market areas, as well as large luxury franchises outside our existing markets, to grow our business, increase the number of vehicle brands we offer and to create a larger gross profit base over which to spread overhead costs.

Our revenues are derived primarily from four offerings: (i) the sale of new vehicles to individual retail customers (new retail) and commercial customers (fleet) (the terms new retail and fleet being collectively referred to as new); (ii) the sale of used vehicles to individual retail customers (used retail) and to other dealers at auction (wholesale) (the terms used retail and wholesale being collectively referred to as used); (iii) maintenance and collision repair services and the sale of automotive parts (collectively referred to as parts and service); and (iv) the arrangement of vehicle financing and the sale of various insurance and warranty products (collectively referred to as F&I). We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle sold, our parts and service operations based on aggregate gross profit, and F&I based on F&I per vehicle sold. We assess the organic growth of our revenue and gross profit by comparing the year-to-year results of stores that we have operated for at least twelve full months.

The organic growth of our company is dependent upon the execution of our balanced automotive retailing and service business strategy as well as our strong brand mix, which is heavily weighted towards luxury and mid-line import brands. Our vehicle sales have historically fluctuated with general local economic conditions, including consumer confidence, availability of consumer credit and fuel prices. We believe that the impact on our business by any future negative trends in new vehicle sales will be partially mitigated by (i) the stability of our parts and service operations, (ii) the variability of significant components of our cost structure and (iii) our advantageous brand mix. Historically, our brand mix has been less affected by market volatility than the U.S. automobile industry as a whole. We expect the recent industry-wide gain in market share of the luxury and mid-line import brands to continue in the near future.

Our gross profit margin varies with our revenue mix. The sale of new vehicles generally results in lower gross profit margin than used vehicle sales and sales of parts and services. As a result, when used vehicle and parts and service revenue increases as a percentage of total revenue, we expect our overall gross profit margin to increase. We continue to implement new initiatives specifically designed to accelerate the growth of our high margin businesses and to leverage our selling, general and administrative (SG&A) expense structure.

SG&A expenses consist primarily of fixed and incentive-based compensation, advertising, rent, insurance, utilities and other customary operating expenses. A significant portion of our cost structure is variable (such as sales commissions), or controllable (such as advertising), generally allowing us to adapt to changes in the retail environment. We evaluate commissions paid to salespeople as a percentage of retail vehicle gross profit and all other SG&A expenses in the aggregate as a percentage of total gross profit.

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. We tend to generate more revenue and operating income in the second and third quarters than in the first and fourth quarters of the calendar year. Generally, the seasonal variations in our operations are caused by factors related to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things. The current economic environment has created significant challenges to our business, including declining vehicle sales due to low consumer confidence, a decline in the availability and increased cost of credit to consumers, high gas prices and a sharp increase in consumer demand for smaller and more fuel efficient vehicles and away from trucks and sport utility vehicles (SUVs). However, over the past several years, certain automobile manufacturers have used a combination of vehicle pricing and financing incentive programs to generate increased customer demand for new vehicles. We anticipate that the manufacturers will continue to use these incentive programs to drive demand for their product offerings. In addition, we believe the manufacturers will adjust production to meet the consumer demand for smaller and more fuel efficient vehicles; however, we do not expect that the near-term production adjustments by automotive manufactures will be sufficient to align inventories with consumer demand.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2008, Compared to the Three Months Ended June 30, 2007

	For the Three Months Ended June 30,			
	2008	2007	Increase (Decrease)	% Change
	(In millions, except per share data)			
REVENUES:				
New vehicle	$ 785.6	$ 881.8	$ (96.2)	(11)%
Used vehicle	314.3	387.9	(73.6)	(19)%
Parts and service	183.5	174.0	9.5	5%
Finance and insurance, net	39.0	42.9	(3.9)	(9)%
Total revenues	$ 1,322.4	$ 1,486.6	(164.2)	(11)%
GROSS PROFIT:				
New vehicle	52.5	61.6	(9.1)	(15)%
Used vehicle	26.6	34.1	(7.5)	(22)%
Parts and service	94.5	90.8	3.7	4%
Finance and insurance, net	39.0	42.9	(3.9)	(9)%
Total gross profit	212.6	229.4	(16.8)	(7)%
OPERATING EXPENSES:				
Selling, general and administrative	168.7	170.8	(2.1)	(1)%
Depreciation and amortization	5.7	5.3	0.4	8%
Other operating expenses (income), net	2.0	(0.2)	2.2	NM
Income from operations	36.2	53.5	(17.3)	(32)%
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(8.0)	(11.0)	(3.0)	(27)%
Other interest expense	(9.4)	(9.1)	0.3	3%
Interest income	0.3	1.0	(0.7)	(70)%
Loss on extinguishment of long-term debt		(0.8)	(0.8)	(100)%
Total other expense, net	(17.1)	(19.9)	(2.8)	(14)%
Income before income taxes	19.1	33.6	(14.5)	(43)%
INCOME TAX EXPENSE	7.5	12.5	(5.0)	(40)%
INCOME FROM CONTINUING OPERATIONS	11.6	21.1	(9.5)	(45)%
DISCONTINUED OPERATIONS, net of tax	(0.7)	(0.5)	(0.2)	(40)%
NET INCOME	$ 10.9	$ 20.6	$ (9.7)	(47)%
Income from continuing operations per common share Diluted	$ 0.36	$ 0.63	$ (0.27)	(43)%
Net income per common share Diluted	$ 0.34	$ 0.62	$ (0.28)	(45)%

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	For the Three Months Ended June 30, 2008	2007
REVENUE MIX PERCENTAGES:		
New light vehicles	55.8%	55.5%
New heavy trucks	3.6%	3.8%
Used retail	18.5%	19.8%
Used wholesale	5.3%	6.3%
Parts and service	13.9%	11.7%
Finance and insurance, net	2.9%	2.9%
GROSS PROFIT MIX PERCENTAGES:		
New light vehicles	23.8%	25.8%
New heavy trucks	0.9%	1.1%
Used retail	12.9%	14.9%
Used wholesale	(0.3)%	(0.1)%
Parts and service	44.4%	39.6%
Finance and insurance, net	18.3%	18.7%
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	79.4%	74.5%

Net income decreased $9.7 million (47%) during the second quarter of 2008 as compared to the second quarter of 2007, as a result of a $9.5 million (45%) decrease in income from continuing operations and a $0.2 million increase in net losses from discontinued operations. Income from continuing operations during the second quarter of 2008 and 2007 includes net of tax non-core items of $1.0 million and $1.1 million, respectively, as detailed in the table below.

	For the Three Months Ended June 30, 2008	2007
	(In millions, except per share data)	
NON CORE ITEMS		
Executive separation benefits expense, net of tax	$ 1.0	$
Loss on extinguishment of long-term debt, net of tax		0.6
Secondary offering expenses*		0.3
Legal settlements expense, net of tax		0.2
Total non-core items	$ 1.0	$ 1.1

* Secondary offering expenses are not deductible for tax purposes; therefore, no tax benefit has been reflected.

We continue to encounter a challenging retail environment due to declining consumer confidence, rising gas prices, changes in consumer demand, falling home prices, and instability in the financial markets, all of which contributed to lower consumer traffic in our stores. The economic environment was particularly weak in Florida, which generates approximately 30% of our total revenue and contributed the largest decline in profitability. In addition, we experienced severe weather and tornado damage in our Mississippi markets, which negatively impacted our profitability. The $9.5 million (45%) decrease in income from continuing operations was a result of a decline in both new and used vehicle gross profit, which decreased $9.1 million (15%) and $7.5 million (22%), respectively, as a result of lower sales volumes and lower gross margins. The decrease in new and used vehicle gross profit had a de-leveraging impact on our selling, general and administrative expense (SG&A) as a percentage of gross profit, which increased 490 basis points to 79.4%. The decreases in new and used vehicle gross profit and expense de-leveraging were partially offset by (i) a $3.7 million (4%) increase in parts and service gross profit and (ii) a $3.0 million (27%) decrease in floor plan interest expense, primarily due to a lower short-term interest rate environment.

Despite the challenging retail and economic environment, we believe that opportunities exist in the marketplace to remain competitive, including (i) focusing on our higher margin parts and service and finance and insurance businesses, (ii) managing inventory to meet customer demands, (iii) executing on cost reduction initiatives and (iv) improving customer service at our dealerships. In addition, in the second quarter of 2008, we purchased thirty-three leased properties on which we operate dealerships for an aggregate purchase price of $207.9 million. We estimate this transaction will be $0.02 accretive to diluted earnings per share on an annualized basis.

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The $164.2 million (11%) decrease in total revenue was primarily a result of a $96.2 million (11%) decrease in new vehicle revenue, a $73.6 million (19%) decrease in used vehicle revenue, partially offset by a $9.5 million (5%) increase in parts and service revenue. The decrease in new vehicle revenue includes a $134.8 million (16%) decrease in same store light vehicle revenue, a $9.4 million (16%) decrease in heavy truck revenue, partially offset by $48.0 million derived from dealership acquisitions. The decrease in used vehicle revenue includes a $60.3 million (20%) decrease in same store retail revenue and $28.3 million (30%) decrease in same store wholesale revenue, partially offset by a $15.0 million increase in used vehicle revenue derived from dealership acquisitions.

The $16.8 million (7%) decrease in total gross profit was primarily a result of a $9.1 million (15%) decrease in new vehicle gross profit and a $7.5 million (22%) decrease in used vehicle gross profit, partially offset by a $3.7 million (4%) increase in parts and service gross profit. Our total gross profit margin increased 70 basis points to 16.1%, principally as a result of a mix shift to our higher margin parts and service and F&I businesses. Our total light vehicle gross profit margin increased 60 basis points to 16.3%.

We expect the remainder of 2008 to continue to be a challenging retail environment, which we expect will continue to negatively impact new and used vehicle sales. However, we expect the luxury and mid-line import brands, which comprise approximately 80% of our unit volumes, will continue to increase market share. We expect a continually challenging market and could continue to experience a year over year decline in net income. We could experience an even greater year over year decline in net income if any one of or a combination of the following items materially change (i) the new vehicle SAAR for 2008 drops below 14.0 million, (ii) retail margins continue to decrease, or (iii) interest rates increase.

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New Vehicle

	For the Three Months Ended June 30, 2008	For the Three Months Ended June 30, 2007	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Revenue:				
New revenue same store(1)				
Luxury	$ 241.9	$ 289.1	$ (47.2)	(16)%
Mid-line import	339.4	383.1	(43.7)	(11)%
Mid-line domestic	102.6	142.8	(40.2)	(28)%
Value	6.1	9.8	(3.7)	(38)%
Total light vehicle revenue same store(1)	690.0	824.8	(134.8)	(16)%
Heavy trucks	47.6	57.0	(9.4)	(16)%
Total new revenue same store(1)	737.6	881.8	(144.2)	(16)%
New revenue acquisitions	48.0			
New vehicle revenue, as reported	$ 785.6	$ 881.8	$ (96.2)	(11)%
New revenue per vehicle sold same store(1)	$ 30,239	$ 30,715	$ (476)	(2)%
New revenue per vehicle sold actual	$ 30,189	$ 30,715	$ (526)	(2)%
New revenue mix same store(1)				
Luxury	33%	33%		
Mid-line import	46%	44%		
Mid-line domestic	14%	16%		
Value	1%	1%		
Heavy trucks	6%	6%		
Gross Profit:				
New gross profit same store(1)				
Luxury	$ 17.7	$ 22.7	$ (5.0)	(22)%
Mid-line import	21.8	26.2	(4.4)	(17)%
Mid-line domestic	7.0	9.7	(2.7)	(28)%
Value	0.3	0.5	(0.2)	(40)%
Total light vehicle gross profit same store(1)	46.8	59.1	(12.3)	(21)%
Heavy trucks	2.0	2.5	(0.5)	(20)%
Total new gross profit same store(1)	48.8	61.6	(12.8)	(21)%
New gross profit acquisitions	3.7			
New vehicle gross profit, as reported	$ 52.5	$ 61.6	$ (9.1)	(15)%
New gross profit per vehicle sold same store(1)	$ 2,001	$ 2,146	$ (145)	(7)%
New gross profit per vehicle sold actual	$ 2,017	$ 2,146	$ (129)	(6)%
New gross margin same store(1)	6.6%	7.0%	(0.4)%	(6)%
New gross margin actual	6.7%	7.0%	(0.3)%	(4)%

New gross profit mix same store(1)		
Luxury	36%	37%
Mid-line import	45%	42%
Mid-line domestic	14%	16%
Value	1%	1%
Heavy trucks	4%	4%

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

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	For the Three Months Ended June 30, 2008	2007	Increase (Decrease)	% Change
New Vehicle Units:				
New vehicle units same store(1)				
Luxury	5,180	6,145	(965)	(16)%
Mid-line import	14,095	15,086	(991)	(7)%
Mid-line domestic	3,214	4,165	(951)	(23)%
Value	314	501	(187)	(37)%
Total light vehicle retail units same store(1)	22,803	25,897	(3,094)	(12)%
Fleet vehicles	891	1,837	(946)	(51)%
Total light vehicle units same store(1)	23,694	27,734	(4,040)	(15)%
Heavy trucks	698	975	(277)	(28)%
Total new vehicle units same store(1)	24,392	28,709	(4,317)	(15)%
New vehicle units acquisitions	1,631			
New vehicle units actual	26,023	28,709	(2,686)	(9)%
Total light vehicle units same store(1)	23,694	27,734	(4,040)	(15)%
Total light vehicle units acquisitions	1,631			
Total light vehicle units	25,325	27,734	(2,409)	(9)%
New vehicle units mix same store(1)				
Luxury	21%	21%		
Mid-line import	58%	53%		
Mid-line domestic	13%	15%		
Value	1%	2%		
Heavy trucks	3%	3%		
Fleet vehicles	4%	6%		

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

The $96.2 million (11%) decrease in new vehicle revenue was primarily a result of a $134.8 million (16%) decrease in same store light vehicle revenue due to a 12% decrease in same store light vehicle retail unit sales, a 51% decrease in same store fleet unit sales and a 2% decrease in same store revenue per vehicle during a period of declining consumer confidence, challenging retail sales and overall weak economic environment. The new vehicle business continued to be under pressure during the quarter as the second quarter new vehicle SAAR was down 12% to 14.1 million from 16.1 million during the second quarter of 2007. We experienced same store unit sales declines across all brand segments, led by a 23% decrease in same store light vehicle retail units from our mid-line domestic brands as these brands continue to lose market share to the luxury and mid-line import brands. We believe that it has been difficult for manufacturers to adapt in the short term to the sharp increase in consumer demand for smaller, fuel efficient vehicles and away from trucks and SUVs. As a result, it has been challenging to adjust our inventories to consumer demand.

The comparative results of our heavy trucks business continue to be challenging due to changes in emission laws in January 2007, which pulled forward demand for 2006 model year heavy trucks into 2006 and the first half of 2007. Heavy truck revenue decreased $9.4 million (16%) as a result of a 28% decrease in unit sales. We have performed a thorough review of our heavy trucks business and have reduced our cost structure in response to lower demand.

The $9.1 million (15%) decrease in new vehicle gross profit was due to a $12.3 million (21%) decrease in same store light vehicle gross profit, resulting from a 12% decrease in same store light vehicle retail unit sales and a 40 basis point decrease in same

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store gross margin. In addition, heavy truck gross profit decreased $0.5 million (20%) as a result of a 28% decrease in heavy truck unit sales. The unit sales and margin decreases reflect a competitive marketplace with less business available due to the overall weak economic environment. In addition, our mid-line domestic and mid-line import dealerships continued to experience a mix shift away from high margin truck and SUVs towards smaller, more fuel efficient, lower gross margin cars. In addition, our luxury dealerships continued to experience a mix shift away from higher priced luxury models towards lower margin entry level products. Both of these factors contributed to a $145 (7%) decline in same store gross profit per unit sold. The decreases discussed above were partially offset by $3.7 million of gross profit derived from dealership acquisitions.

Used Vehicle

	For the Three Months Ended June 30,		Increase	%
	2008	2007	(Decrease)	Change
	(Dollars in millions, except for per vehicle data)			
Revenue:				
Retail revenues same store(1)				
Light vehicle	$ 233.5	$ 290.0	$ (56.5)	(19)%
Heavy trucks	0.9	4.7	(3.8)	(81)%
Total used retail revenues same store(1)	234.4	294.7	(60.3)	(20)%
Retail revenues acquisitions	10.4			
Total used retail revenues	244.8	294.7	(49.9)	(17)%
Wholesale revenues same store(1)	64.9	93.2	(28.3)	(30)%
Wholesale revenues acquisitions	4.6			
Total wholesale revenues	69.5	93.2	(23.7)	(25)%
Used vehicle revenue, as reported	$ 314.3	$ 387.9	$ (73.6)	(19)%
Gross profit:				
Retail gross profit same store(1)				
Light vehicle	$ 26.2	$ 34.2	$ (8.0)	(23)%
Heavy trucks		0.1	(0.1)	(100)%
Total used retail gross profit same store(1)	26.2	34.3	(8.1)	(24)%
Retail gross profit acquisitions	1.0			
Total used retail gross profit	27.2	34.3	(7.1)	(21)%
Wholesale gross profit same store(1)	(0.6)	(0.2)	(0.4)	(200)%
Wholesale gross profit acquisitions				
Total wholesale gross profit	(0.6)	(0.2)	(0.4)	(200)%
Used vehicle gross profit, as reported	$ 26.6	$ 34.1	$ (7.5)	(22)%
Used retail units same store(1)				
Light vehicle	13,195	15,854	(2,659)	(17)%
Heavy trucks	28	159	(131)	(82)%
Total used retail units same store(1)	13,223	16,013	(2,790)	(17)%

Used retail units acquisitions	571			
Used retail units actual	13,794	16,013	(2,219)	(14)%
Used revenue PVR same store(1)	$ 17,727	$ 18,404	$ (677)	(4)%
Used revenue PVR actual	$ 17,747	$ 18,404	$ (657)	(4)%
Used gross profit PVR same store(1)	$ 1,981	$ 2,142	$ (161)	(8)%
Used gross profit PVR actual	$ 1,972	$ 2,142	$ (170)	(8)%
Used retail gross margin same store(1)	11.2%	11.6%	(0.4)%	(3)%
Used retail gross margin actual	11.1%	11.6%	(0.5)%	(4)%

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

The $73.6 million (19%) decrease in used vehicle revenue includes a $60.3 million (20%) decrease in same store retail revenue and a $28.3 million (30%) decrease in same store wholesale revenue, partially offset by $15.0 million derived from dealership acquisitions. The $7.5 million (22%) decrease in used vehicle gross profit was primarily a result of an $8.1 million (24%) decrease in same store retail gross profit. The decrease in used vehicle revenue and gross profit reflect (i) a weak retail environment, (ii) a significant decline in the sale of used heavy trucks, (iii) a tightening lending environment, (iv) lower sales to sub-prime customers and (v) a sharp increase in consumer demand for smaller and more fuel efficient vehicles and away from trucks and SUVs.

The rapid decline in consumer demand for trucks and SUVs has caused us to retail more of these vehicles that otherwise would have been wholesaled because of weak demand for these vehicles at the auction. We have experienced reduced used vehicle sales to sub-prime customers as sales to sub-prime customers reached their peak in the first quarter of 2007, prior to the weakening of the economy and tightening lending practices, both of which began in the second half of 2007. We are closely managing our sub-prime business and continue to believe there is opportunity to improve our used vehicle sales by offering appropriately priced used vehicle inventory; however, we expect our sub-prime gross margins to decrease slightly from their 2007 levels as a result of financing providers lowering their advance ratios.

We continue to focus on inventory management, including aligning our inventory to meet consumer demands and decreasing our inventory in response to the slower retail environment. Although our same store wholesale losses were $0.6 million and our retail margins decreased 4%, we decreased our used vehicle inventory by 8% in the second quarter of 2008, in addition to a 13% reduction during 2007. As a result, we believe our used vehicle inventory is now better aligned with consumer demand. We expect that this improvement in our used vehicle inventory will help mitigate the impact of the challenging economic environment on our used vehicle performance. In addition, we continue to focus on the growth of all used vehicle product offerings, including factory certified, traditional and cash cars.

Parts and Service

	For the Three Months Ended June 30,		Increase	%
	2008	2007	(Decrease)	Change
	(Dollars in millions)			
Revenue:				
Light vehicle same store(1)	$ 159.6	$ 158.1	$ 1.5	1%
Heavy trucks	15.2	15.9	(0.7)	(4)%
Total revenue same store(1)	174.8	174.0	0.8	%
Revenues acquisitions	8.7			
Parts and service revenue, as reported	$ 183.5	$ 174.0	$ 9.5	5%
Gross profit:				
Light vehicle same store(1)	$ 85.1	$ 85.5	$ (0.4)	%
Heavy trucks	4.9	5.3	(0.4)	(8)%
Total gross profit same store(1)	90.0	90.8	(0.8)	(1)%
Gross profit acquisitions	4.5			
Parts and service gross profit, as reported	$ 94.5	$ 90.8	$ 3.7	4%
Parts and service gross margin same store(1)	51.5%	52.2%	(0.7)%	(1)%
Parts and service gross margin actual	51.5%	52.2%	(0.7)%	(1)%

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

The $9.5 million (5%) increase in parts and service revenues and $3.7 million (4%) increase in parts and service gross profit was primarily due to revenue and gross profit derived from dealership acquisitions as same store revenue increased by only $0.8 million and gross profit decreased by only $0.8 million (1%) during the second quarter of 2008, as compared to the second quarter 2007. Same store customer pay parts and service revenue decreased $0.5 million (1%), while gross profit increased $0.4 million (1%). Same store revenue and gross profit from our wholesale parts business increased $2.5 million (7%) and $0.4 million (7%), respectively. We continue to experience decreases in our warranty business as same store warranty revenue and gross profit decreased $1.6 million (5%) and $0.4 million (3%), respectively, as a result of improvements in the quality of vehicles produced in recent years.

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Despite the challenging retail and overall economic environment, our parts and service business has remained relatively stable. We believe that in difficult economic times consumers may delay new vehicle purchases, but will continue to require maintenance and repair work. We have focused on growing our customer pay business and expect our parts and service sales to continue to grow as we (i) continue to invest in additional service capacity, (ii) upgrade equipment, (iii) improve customer retention and customer satisfaction, (iv) capitalize on our regional training programs, and (v) add service advisors and skilled technicians to meet anticipated future demand, especially from the increased market share of the luxury import and mid-line import brands. In addition, we expect to recognize improved parts and service gross profit in the future from heavy trucks as a result of the addition of service capacity at our heavy truck service center, and as the customers who purchased vehicles prior to the emission law changes begin to bring their vehicles in for maintenance and repairs.

Finance and Insurance, net

	For the Three Months Ended June 30, 2008	2007	Increase (Decrease)	% Change
	(In millions, except for per vehicle data)			
Finance and insurance, net same store(1)				
Light vehicle	$ 37.4	$ 42.6	$ (5.2)	(12)%
Heavy trucks	0.1	0.3	(0.2)	(67)%
Finance and insurance, net same store(1)	37.5	42.9	(5.4)	(13)%
Finance and insurance, net acquisitions	1.5			
Finance and insurance, net as reported	$ 39.0	$ 42.9	$ (3.9)	(9)%
F&I per vehicle sold same store(1)	$ 997	$ 959	$ 38	4%
F&I per vehicle sold actual	$ 979	$ 959	$ 20	2%

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

F&I decreased $3.9 million (9%) during the second quarter of 2008 as compared to the second quarter of 2007, as a result of a $5.4 million (13%) decrease in same store F&I, partially offset by $1.5 million derived from dealership acquisitions. The decrease in same store F&I was a result of a 16% decrease in same store unit sales, partially offset by a 4% increase in same store F&I per vehicle sold. The increase in F&I per vehicle sold was attributable to (i) increased customer acceptance rates on sales of our aftermarket products and services, (ii) lengthening in finance contract terms, (iii) improved F&I performance of the bottom third of our stores and (iv) mix shift away from sub-prime customers, as these deals typically generate less finance and insurance revenue. Overall, our F&I performance is dependent on unit sales and F&I per vehicle sold. We believe opportunities exist to increase F&I per vehicle sold, as compared to the prior period through (a) the improvement of our F&I results at our lower-performing franchises, (b) the continued refinement and enhancement in the menu of products we offer our customers and (c) a continued mix shift away from sub-prime customers.

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Selling, General and Administrative

	For the Three Months Ended June 30,					% of Gross Profit
	2008	% of Gross Profit	2007	% of Gross Profit	Increase (Decrease)	Increase (Decrease)
	(Dollars in millions)					
Personnel costs	$ 73.0	36.2%	$ 77.9	34.0%	$ (4.9)	2.2%
Sales compensation	21.6	10.7%	26.0	11.3%	(4.4)	(0.6)%
Share-based compensation	(0.6)	(0.3)%	1.6	0.7%	(2.2)	(1.0)%
Outside services	15.7	7.8%	13.9	6.1%	1.8	1.7%
Advertising	12.5	6.2%	12.7	5.5%	(0.2)	0.7%
Rent	13.5	6.7%	14.1	6.1%	(0.6)	0.6%
Utilities	4.3	2.1%	4.4	1.9%	(0.1)	0.2%
Insurance	4.4	2.2%	3.1	1.4%	1.3	0.8%
Other	16.6	8.1%	17.1	7.5%	(0.5)	0.6%
Selling, general and administrative same store (1)	$ 161.0	79.7%	$ 170.8	74.5%	$ (9.8)	5.2%
Acquisitions	7.7					
Selling, general and administrative actual	$ 168.7		$ 170.8			
Gross Profit same store	$ 201.9		$ 229.4			

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

Same store SG&A expense as a percentage of gross profit was 79.7% for the second quarter of 2008, as compared to 74.5% for the second quarter of 2007. The 520 basis point increase was primarily a result of the de-leveraging impact on our cost structure from the decline in vehicle sales volumes, including a 220 basis point increase in personnel costs and a 60 basis point increase in rent expense as well as (i) a 170 basis point increase in outside services due primarily to Arkona dealer management system installation costs, including the overlap of license fees for our prior dealer management systems, as well as increased professional fees and increased training costs and (ii) an 70 basis point increase in insurance expense due to primarily to increased property and workers compensation claims. These items were partially offset by a 100 basis point decrease in share-based compensation expense as a result of reductions in performance estimates of employee equity awards.

We have implemented several expense control initiatives including personnel reductions and revised compensation structures. In addition, we plan to significantly reduce our corporate and regional overhead costs through a phased restructuring plan, the first step of which is the restructuring of our corporate overhead, shutting down our offices in New York, NY and Stamford, CT, and moving our headquarters to Atlanta, GA. This move will bring us closer to our dealership operations and will result in an estimated 20% reduction in our corporate personnel expense. We also completed the purchase of $207.9 million of previously leased real estate in the second quarter of 2008, which will be $0.02 accretive to diluted earnings per share on an annualized basis.

SG&A expense as a percentage of gross profit is heavily dependent on our unit sales and therefore, we do not believe we will achieve our 2007 level of SG&A expense as a percentage of gross profit in 2008, in what we expect will continue to be a challenging retail environment.

Other Operating Expense (Income)

Other operating expense (income) includes amounts that were previously classified as Other Non-Operating Income (Expense) and Selling, General and Administrative on our Condensed Consolidated Statements of Income for the three months ended June 30,

2007. The amounts include gains and losses from the sale of property and equipment, income derived from sub-lease arrangements and other non-core operating items. During the second quarter of 2008 we incurred executive separation benefits expense of $1.7 million for our former CFO.

Depreciation and Amortization

The $0.4 million (8%) increase in depreciation and amortization expense was a result of property and equipment acquired during 2008 and 2007, including the purchase of $207.9 million of previously leased property in the second quarter of 2008.

Other Income (Expense)

The $3.0 million (27%) decrease in floor plan interest expense was primarily attributable to a lower short-term rate environment.

The $0.3 million (3%) increase in other interest expense was primarily attributable to interest expense on $151.1 million of mortgage borrowings in the second quarter of 2008 in connection with the purchase of previously leased real estate.

During the three months ended June 30, 2007, we recognized a $0.8 million loss on the extinguishment of $11.9 million of our 9% Notes in connection with the refinancing of our long-term debt, which was substantially completed in the first quarter of 2007 and finalized in the second quarter of 2007.

Interest Income

The $0.7 million (70%) decrease in interest income is primarily a result of a lower average cash balance during the second quarter of 2008 as compared to the second quarter of 2007.

Income Tax Expense

The $5.0 million (40%) decrease in income tax expense was a result of (i) a $14.5 million (43%) decrease in our income before income taxes and (ii) a 210 basis point increase in our effective tax rate from 37.2 % for the 2007 period to 39.3% for the 2008 period. We anticipate that our effective tax rate will be between 38% and 39% in 2008.

Discontinued Operations

	For the Three Months Ended June 30, 2008			For the Three Months Ended June 30, 2007		
	Sold	Pending Disposition(a)	Total	Sold(b)	Pending Disposition(a)	Total
			(In millions)			
Franchises	1	1	2	3	1	4
Net loss from sold or closed franchises, net of tax	$ (0.5)	$	$ (0.5)	$ (0.6)	$	$ (0.6)
Net income (loss) from franchises held for sale, net of tax		(0.1)	(0.1)		0.1	0.1
Net divestiture expense, including net loss on sale of franchises, net of tax	(0.1)		(0.1)			
Discontinued operations, net of tax	$ (0.6)	$ (0.1)	$ (0.7)	$ (0.6)	$ 0.1	$ (0.5)

(a) Businesses were pending disposition as of June 30, 2008.
(b) Businesses were sold between April 1, 2007 and June 30, 2008.

During the second quarter of 2008, we sold one franchise (one dealership location) that had been classified as discontinued operations, and as of June 30, 2008, we were actively pursuing the sale of one franchise (one dealership location). The $0.7 million net loss from discontinued

operations for the second quarter of 2008 is a result of (i) $0.5 million of operating losses from franchises sold during 2008, rent expense of idle facilities and miscellaneous legal expenses of franchises sold prior June 30, 2008, (ii) a $0.1 million loss on the sale of one franchise (one dealership location) and (iii) $0.1 million of operating losses of one franchise (one dealership location) pending disposition as of June 30, 2008.

The $0.5 million of net losses from discontinued operations during the second quarter of 2007 includes $0.6 million of net operating losses of franchises sold in 2008 and 2007, rent expense of idle facilities and miscellaneous legal expenses of franchises sold prior June 30, 2008, partially offset by $0.1 million of operating income of one franchise pending disposition.

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RESULTS OF OPERATIONS

Six Months Ended June 30, 2008, Compared to the Six Months Ended June 30, 2007

	For the Six Months Ended June 30,			
	2008	2007	Increase (Decrease)	% Change
	(In millions, except per share data)			
REVENUES:				
New vehicle	$ 1,521.8	$ 1,695.5	$ (173.7)	(10)%
Used vehicle	638.7	759.9	(121.2)	(16)%
Parts and service	366.1	346.3	19.8	6%
Finance and insurance, net	77.5	81.1	(3.6)	(4)%
Total revenues	2,604.1	2,882.8	(278.7)	(10)%
GROSS PROFIT:				
New vehicle	100.8	120.5	(19.7)	(16)%
Used vehicle	55.0	69.6	(14.6)	(21)%
Parts and service	187.3	179.4	7.9	4%
Finance and insurance, net	77.5	81.1		
Total gross profit	420.6	450.6	(30.0)	(7)%
OPERATING EXPENSES:				
Selling, general and administrative	336.3	341.7	(5.4)	(2)%
Depreciation and amortization	11.2	10.6	0.6	6%
Other operating expenses (income), net	1.7	2.5	(0.8)	(32)%
Income from operations	71.4	95.8	(24.4)	(25)%
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(17.1)	(22.1)	(5.0)	(23)%
Other interest expense	(18.5)	(21.0)	(2.5)	(12)%
Interest income	1.3	3.0	(1.7)	(57)%
Loss on extinguishment of long-term debt		(18.5)	(18.5)	(100)%
Total other expense, net	(34.3)	(58.6)	(24.3)	(41)%
Income before income taxes	37.1	37.2	(0.1)	%
INCOME TAX EXPENSE	14.3	13.8	0.5	4%
INCOME FROM CONTINUING OPERATIONS	22.8	23.4	(0.6)	(3)%
DISCONTINUED OPERATIONS, net of tax	(1.4)	(2.4)	1.0	42%
NET INCOME	$ 21.4	$ 21.0	$ 0.4	2%
Income from continuing operations per common share Diluted	$ 0.71	$ 0.69		